

Message Text

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FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5463

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 2896

DEPT ALSO PASS TREASURY FOR SYVRUD

E.O. 11652: GDS
TAGS: EFIN ECON PO
SUBJECT: PORTUGUESE BALANCE OF PAYMENTS PROSPECTS

REF: LISBON 2189

SUMMARY: RECENT GOP REVISED BALANCE OF PAYMENTS ESTIMATE INDICATES A CURRENT ACCOUNT DEFICIT IN CY 1977 OF 1,494 MILLION DOLLARS. THIS HIGHER-THAN-ANTICIPATED DEFICIT LEVEL SUGGESTS THAT EFFORTS TO REDUCE PORTUGAL'S EXTERNAL IMBALANCE TO MANAGEABLE PROPORTIONS WILL BE MORE DIFFICULT THAN MANY HAD PREVIOUSLY BELIEVED. GOP PROJECTIONS FOR 1978 ARE RATHER OPTIMISTIC. ACTUAL RESULTS WILL OF COURSE DEPEND HEAVILY ON ANTICIPATED IMF AGREEMENT. EMBASSY WILL SUBMIT REVISED CY 1978 B/P PROJECTIONS AS SOON AS IMF AGREEMENT TERMS BECOME AVAILABLE. END SUMMARY.

1. GOP HAS REVISED ITS ESTIMATES FOR THE 1977 BALANCE OF PAYMENTS RESULTS. THIS NEW ESTIMATE IS BEING USED IN NEGOTIATIONS WITH THE IMF MISSION. FOLLOWING IS CURRENT ACCOUNT PORTION OF THE REVISED ESTIMATE:

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PORTUGAL'S EXTERNAL CURRENT ACCOUNT BALANCE

(MILLIONS OF DOLLARS)

1977	BASE YEAR	1978	PROG YEAR
	(APR 77- MAR 78)		(APR 78- MAR 79)

I. TRADE BALANCE	-2,530	-2,555	-2,320	-2,232
A. IMPORTS (F.O.B.)	-4,561	-4,652	-4,627	-4,615
B. EXPORTS (FO.B.)	2,031	2,097	2,307	2,383
II. SERVICES	-100	-98	PLUS 23	PLUS 47
A. TOURISM	270	277	430	450
DEBIT	-135	-126	-103	-100
CREDIT	405	403	533	550
B. TRANSP.	-135	-138	-107	-103
DEBIT	-374	-380	-387	-390
CREDIT	239	242	280	287
C. INV. INCOME(NET)	-177	-217	-300	-300
D. OTHER (NET)	-58	-20	-	-
IIIM PRIVATE TRANSF. (NET)	1,136	1,168	1,256	1,285
IV. CURRENT ACCOUNT	-1,494	-1,485	-1,041	-900

2. REVISED ESTIMATE PLACES CURRENT ACCOUNT BALANCE IN CY 1977 AT 1,494 MILLION DOLLARS RATHER THAN THE 1,380 SHOWN REFTEL. THIS DEFICIT IS DUE TO LARGER THAN EXPECTED MERCHANDISE AND SERVICES DEFICITS WHICH WERE ONLY PARTIALLY OFFSET BY GREATER UNILATERAL TRANSFERS. ON THE TRADE ACCOUNT, DEFICIT NOW ESTIMATED TO HAVE REACHED 2,530 MILLION DOLLARS BECAUSE OF UNANTICIPATED IMPORTS VALUED AT 61 MILLION DOLLARS. SERVICES DEFICIT IS MORE THAN DOUBLE THE EARLIER

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PROJECTION, 100 MILLION DOLLARS RATHER THAN 45 MILLION DOLLARS. THIS DIFFERENCE OCCURRED BECAUSE OF A POORER PERFORMANCE THAN EXPECTED IN EACH OF THE MAJOR SERVICE CATEGORIES.

3. OFFICIAL GOP PROJECTION FORESEES THE TRADE DEFICIT DECLINING BY 210 MILLION IN CY 1978, REACHING A LEVEL OF 2,320 MILLION DOLLARS (IN COMPARISON, BETWEEN 1976 AND 77 THE TRADE DEFICIT ROSE 421 MILLION DOLLARS. EVEN MORE STARTLING, GOP PROJECTS A DECLINE OF 323 MILLION IN THE TRADE DEFICIT FROM THE BASE YEAR APRIL 77-MARCH 78 TO THE PROGRAM YEAR APRIL 78-MARCH 79. GOP HOPES TO ACHIEVE THIS RESULT BY BOOSTING EXPORTS SOME 13.6 PERCENT IN BOTH CY 78 AND DURING THE PROGRAM YEAR (AS COMPARED TO AN 11.4 PERCENT GROWTH IN CY 77), WHILE HOLDING IMPORT GROWTH TO 1.4 PERCENT IN CY 78 AND REDUCING IT BY 1 PERCENT DURING THE PROGRAM YEAR (AS COMPARED TO A 16 PERCENT GROWTH IN CY 77). GOP PROJECTIONS INCLUDE AN ESTIMATED 5 PERCENT RISE IN WORLD PRICES.

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 2896

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4. GOP ANTICIPATES A SHARP TURNAROUND IN THE SERVICES ACCOUNTS, EXPECTING THEM TO SHIFT FROM A MINUS 100 MILLION DOLLARS IN CY 77 TO A PLUS 23 MILLION IN CY 78. THIS TREND IS EXPECTED TO CONTINUE INTO 1979, THEREBY PROVIDING A PLUS 47 MILLION DOLLARS IN THE SERVICES ACCOUNT DURING THE PROGRAM YEAR. THE OFFICIAL PROJECTIONS RECOGNIZE THAT THE INVESTMENT CATEGORY DEFICIT WILL CONTINUE TO GROW SHARPLY.MMM, BUT THEY FORESEE BOTH A VERY SHARP GROWTH IN NET TOURISM RECEIPTS AND A SUBSTANTIAL DECLINE IN THE NET TRANSPORT DEFICIT. THE TOURISM PROJECTION, FOR EXAMPLE, SHOWS A MARKED INCREASE IN GROSS RECEIPTS (31 PERCENT) AND A SHARP DROP IN TOURISM OUTFLOWS (INUS 23.7 PERCENT). IN A SIMILARLY POSITIVE MANNER, PRIVATE TRANSFERS ARE EXPECTED TO RISE BY 10 PERCENT.

5. COMMENT: THESE LATEST ESTIMATES FOR 1977 INDICATE THAT EFFORTS TO REDUCE PORTUGAL'S EXTERNAL DEFICIT TO MANAGEABLE PROPORTIONS IN 1978 AND 1979 WILL BE MORE DIFFICULT THAN GOP AND IMF OFFICIALS HAD PROBABLY BELIEVED PREVIOUSLY. GOP PROJECTIONS FOR CY 78 AND THE PROGRAM YEAR ARE, TO SAY THE LEAST, OPTIMISTIC. FOR THE PRESENT, WE CONTINUE TO BELIEVE THAT THE CY 78 TRADE DEFICIT WILL BE
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CLOSER TO 2.45 BILLION DOLLARS CITED IN REFTTEL THAN TO THE 2.3 BILLION DOLLARS CONTAINED IN THE NEWEST GOP PROJECTIONS.

6. SIMILARLY, WE DOUBT THAT THE SERVICES ACCOUNT CAN TURN AROUND AS RAPIDLY AS THE GOP ANTICIPATES. OUR DIFFERING VIEW STEMS FROM TWO PRINCIPAL CONSIDERATIONS. FIRST, ALTHOUGH GROSS TOURISM RECEIPTS MAY GROW BY APPROXIMATELY AS MUCH AS GOP FORESEES, WE CANNOT BELIEVE THAT TOURISM OUTFLOWS WILL FAIL IN NOMINAL TERMS BY NEARLY 24 PERCENT. SECOND, GOP TRANSPORT FIGURES ALSO APPEAR RATHER OPTIMISTIC. THE NATIONAL AIRLINE WILL CERTAINLY ENLARGE ITS NET RECEIPTS, BUT THE MERCHANT MARINE IS UNLIKELY TO RAISE SUBSTANTIALLY ITS NET EARNINGS. IN FACT, GOP MAY ATTEMPT TO REDUCE SOME OF THE MERCHANT MARINE'S FRINGE BENEFITS AND RESTRUCTURE ITS WORK RULES. IF IT DOES, A PROLONGED STRIKE IS VIRTUALLY CERTAIN TO ENSUE, IN WHICH CASE THE B/P TRANSPORT ACCOUNT DEFICIT THIS YEAR WOULD BE HIGHER THAN IN 1977. GOP PROJECTION ON PRIVATE TRANSFERS MAY PROVE MORE REALISTIC THAN THAT CONTAINED REFTEL, BUT THIS ISSUE DEPENDS HEAVILY UPON, AMONG OTHER THINGS, WHETHER GOP CAN INSTILL CONFIDENCE AMONG IMIIGRANTS.

7. IN MANY RESPECTS PORTUGAL'S ANTICIPATED IMF AGREEMENT WILL SIGNIFICANTLY AFFECT THE CY 78 B/P RESULTS, ALTHOUGH DEVELOPMENTS DURING FIRST QUARTER WILL ALREADY HAVE HAD A MAJOR INFLUENCE. AS SOON AS TERMS OF ANTICIPATED AGREEMENT ARE AVAILABLE, EMBASSY WILL SUBMIT ITS REVISED PROJECTIONS FOR CY 78.
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